

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
May 27, 2006 Through July 2, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
JACKSON COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
May 27, 2006 Through July 2, 2007**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Jackson County Sheriff for the period May 27, 2006 Through July 2, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,416,409 for the districts for 2006 taxes, retaining commissions of \$100,142 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,314,515 to the districts for 2006 Taxes. Taxes of \$1,385 are due to the districts from the Sheriff.

Report Comments:

- 2006-01 The Sheriff Failed To Take Corrective Action Regarding The Incorrect Tax Rate Used In 2005 For The Library District
- 2006-02 The Sheriff Should Collect All Receivables And Pay All Liabilities For The 2005 Tax Settlement
- 2006-03 The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- 2006-04 The Sheriff Should Deposit Funds Intact On A Daily Basis
- 2006-05 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable William O. Smith, Jackson County Judge/Executive

Honorable Tim Fee, Jackson County Sheriff

Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the Jackson County Sheriff's Settlement - 2006 Taxes for the period May 27, 2006 through July 2, 2007. This tax settlement is the responsibility of the Jackson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Jackson County Sheriff's taxes charged, credited, and paid for the period May 27, 2006 through July 2, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary Honorable

Finance and Administration Cabinet

Honorable William O. Smith, Jackson County Judge/Executive

Honorable Tim Fee, Jackson County Sheriff

Members of the Jackson County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-01 The Sheriff Failed To Take Corrective Action Regarding The Incorrect Tax Rate Used In 2005 For The Library District
- 2006-02 The Sheriff Should Collect All Receivables And Pay All Liabilities For The 2005 Tax Settlement
- 2006-03 The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- 2006-04 The Sheriff Should Deposit Funds Intact On A Daily Basis
- 2006-05 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, cursive script.

Crit Luallen

Auditor of Public Accounts

December 5, 2007

JACKSON COUNTY
TIM FEE, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period May 27, 2006 July 2, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 151,693	\$ 524,727	\$ 1,025,356	\$ 273,474
Tangible Personal Property	7,770	38,239	54,721	37,107
Fire Protection	2,254			
Franchise Taxes	33,638	152,318	235,083	
Additional Billings	36	123	240	80
Unmined Coal - 2005 Taxes	277	884	1,897	497
Limestone, Sand and Mineral Reserves	305	1,054	2,065	551
Penalties	2,118	7,500	14,242	4,069
Adjusted to Sheriff's Receipt	<u>(81)</u>	<u>(106)</u>	<u>(55)</u>	<u>(103)</u>
Gross Chargeable to Sheriff	<u>198,010</u>	<u>724,739</u>	<u>1,333,549</u>	<u>315,675</u>
<u>Credits</u>				
Exonerations	3,008	10,376	20,328	5,421
Discounts	1,848	6,429	12,321	3,616
Delinquents:				
Real Estate	6,706	22,979	44,967	11,991
Tangible Personal Property	63	309	442	313
Franchise Taxes	<u>446</u>	<u>948</u>	<u>3,053</u>	
Total Credits	<u>12,071</u>	<u>41,041</u>	<u>81,111</u>	<u>21,341</u>
Taxes Collected	185,939	683,698	1,252,438	294,334
Less: Commissions *	<u>8,190</u>	<u>29,057</u>	<u>50,098</u>	<u>12,797</u>
Taxes Due	177,749	654,641	1,202,340	281,537
Taxes Paid	177,591	654,145	1,201,295	281,484
Refunds (Current and Prior Year)	<u>27</u>	<u>99</u>	<u>190</u>	<u>51</u>
Due Districts		**		
as of Completion of Audit	<u>\$ 131</u>	<u>\$ 397</u>	<u>\$ 855</u>	<u>\$ 2</u>

* And ** See Next Page

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
TIM FEE, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period May 27, 2006 Through July 2, 2007 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,153,971
4% on	\$	1,252,438

**Special Taxing Districts:

Library District	\$	155
Health District		155
Extension District		64
Soil Conservation District		23
		<hr/>
Due Districts	\$	<u>397</u>

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT

July 2, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
July 2, 2007 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 28, 2006 through July 2, 2007.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2005. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 3, 2006 through July 2, 2007.

Note 4. Interest Income

The Jackson County Sheriff earned \$487 as interest income on 2006 taxes. As of December 5, 2007, the Sheriff owed \$242 in interest to the school district and \$245 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Jackson County Sheriff collected \$24,401 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Jackson County Sheriff collected \$1,050 of advertising costs and \$2,970 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William O. Smith, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Jackson County Sheriff's Settlement - 2006 Taxes for the period May 27, 2006 through July 2, 2007, and have issued our report thereon dated December 5, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jackson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jackson County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Jackson County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2006-04 and 2006-05.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Jackson County Sheriff's Settlement – 2006 Taxes for the period May 27, 2006 through July 2, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as follows: 2006-01, 2006-02 and 2006-03.

Jackson County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Jackson County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

December 5, 2007

COMMENTS AND RECOMMENDATIONS

JACKSON COUNTY
TIM FEE, SHERIFF
COMMENTS AND RECOMMENDATIONS

As of July 2, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Failed To Take Corrective Action Regarding The Incorrect Tax Rate Used In 2005 For The Library District

Franchise tax bills for 2005 taxes were prepared using an incorrect tax rate for the Library District. The tangible tax rate for the Library District should have been 0.1561 per \$100 assessed. The franchise bills were prepared at a rate of 0.01561 per \$100 assessed. This decimal point error caused the bills for the Library District to be understated by \$52,015 for the 2005 collections and \$3,204 for the 2006 collections.

It was recommended the Sheriff consult with the Department of Revenue and the County Attorney for guidance on correcting these franchise bills. It should be noted that this would result in less than 20 franchise tax bills being prepared.

Sheriff's Response: I have already talked to the County Clerk's office about printing corrected franchise bills for 2005.

The Sheriff Should Collect All Receivables And Pay All Liabilities For The 2005 Tax Settlement

The Sheriff has not settled his 2005 tax account. We recommend the Sheriff take the necessary action to settle his 2005 account as required.

Sheriff's Response: Will correct.

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

The Sheriff failed to distribute interest earned to the school district and his fee account.” The Sheriff should distribute interest earnings monthly per KRS 134.140(3)(d). During 2006 tax collections, the Sheriff earned a total of \$487 in interest. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school on a monthly basis.

Sheriff's Response: Will correct.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

The Sheriff Should Deposit Funds Intact On A Daily Basis

During 2006 tax collections, computerized tax collection reports were not printed on a daily basis. The tax collection reports included up to two weeks of collections. While total deposits could be reconciled to total tax collections, deposits were not timely deposited into the bank. Deposit tickets lacked the detail to be agreed to batch totals collected. Good internal controls dictate tax collections be reconciled daily to the bank deposits and promptly deposited into the bank. We recommend the Sheriff print daily tax collection reports, deposit receipts intact daily, reconcile daily tax collection reports to daily deposits and the cash drawer, and prepare detailed deposit slips.

Sheriff's Response: OK.

JACKSON COUNTY
TIM FEE, SHERIFF
COMMENTS AND RECOMMENDATIONS
As of July 2, 2007
(Continued)

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties because the Sheriff's bookkeeper maintains the ledgers, deposits the collections, collects funds from customers and prepares checks. By not segregating these duties there is an increased risk of misappropriation of assets either by error or fraud. The same employee should not handle, record, and reconcile cash. We recommend the Sheriff segregate these duties or put the following compensating controls in place to offset this internal control weakness:

- The Sheriff should have an independent person periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. This individual could document this by initialing the bank deposit, daily checkout sheet and receipts ledger.
- The Sheriff should have an independent person compare the monthly financial report to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. This individual could document this by initialing the monthly financial reports.
- The Sheriff should have an independent person periodically compare payments to the taxing districts. This individual could document this by initialing the monthly reports.
- All disbursement checks to be signed by two people, one being the Sheriff.
- The Sheriff personally mail or deliver tax payments to districts.
- The Sheriff should have an independent person periodically compare the monthly bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This individual could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: OK.

